

Message Text

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ORIGIN ARA-20

INFO OCT-01 ISO-00 FEA-02 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-03 COME-00 DODE-00 EB-11 FPC-01 H-03 INR-11

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 /153 R

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EB/ORF/FSE:MCREEKMORE

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FM SECSTATE WASHDC

TO AMEMBASSY QUITO

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L STATE 207069

E.O. 11652: GDS

TAGS:ENRG, PGOV, EC

SUBJECT: TEXACO-GULF PROBLEMS

1. REPRESENTATIVES OF TEXACO-GULF (TEXACO VP SHIELDS AND GULF WASHINGTON REP ORTIZ) CALLED AT THE DEPARTMENT 17 SEPTEMBER TO OUTLINE THEIR LATEST FINANCIAL AND OTHER PROBLEMS WITH THE GOE.

2. SHIELDS EXPLAINED CURRENT SERIOUS FINANCIAL ISSUES. PURSUANT TO THE AGREEMENT FOR PURCHASE OF 25 PERCENT PARTICIPATION THE GOE PAID T-G DOLLARS 25 MILLION AND AGREED TO PAY APPROXIMATELY DOLLARS 44 MILLION ON 6 SEPTEMBER 1974. THE GOVERNMENT HAS MADE NO MOVE TO PAY THIS AMOUNT. ACCORDING TO SHIELDS T-G AND THE GOE HAD AGREED ON ARTHUR YOUNG AS THE INTERNATIONAL AUDIT FIRM THAT WOULD CERTIFY THE EXACT AMOUNT OF THE PAYMENT REQUIRED OF THE GOE TO COMPENSATE G-T FOR THE 25 PERCENT PARTICIPATION. THE GOE HAS NOW REJECTED ARTHUR YOUNG AND
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HAS MADE NO MOVE TO DESIGNATE A SUBSTITUTE OR TO PROPOSE

ANY ALTERNATIVE MEANS FOR DETERMINING THE AMOUNT OF PAYMENT.

3. A SECOND FINANCIAL PROBLEM INVOLVES PAYMENT FOR INTERNAL CONSUMPTION CRUDE OIL. T-G IS DELIVERING APPROXIMATELY 20,000 BARRELS A DAY FOR INTERNAL CONSUMPTION

AT FIXED PRICE OF DOLLAR 1.50 BARREL, AND THEY HAVE NOT BEEN PAID FOR MORE THAN TWO MONTHS. THE THIRD FINANCIAL ISSUE INVOLVES CEPE'S TOTAL FAILURE TO MAKE ANY FINANCIAL CONTRIBUTION TO THE OPERATIONS OF THE OIL FIELDS OF WHICH IT IS NOW 25 PERCENT OWNER. T-G HAS CARRIED THE ENTIRE BURDEN IN SPITE OF CEPE'S OBLIGATION UNDER THE AGREEMENT.

4. SHIELDS REPORTS THAT CEPE RECENTLY ORDERED T-G MANAGEMENT TO PURCHASE ECUADOREAN PARTICIPATION CRUDE AT A PRICE EQUAL TO 93-95 PERCENT OF THE TAX REFERENCE VALUE (TRV) OR FACE THE PROSPECT OF FULL NATIONALIZATION. ACCORDING TO SHIELDS, T-G HAD OFFERED TO NEGOTIATE RE-PURCHASE AGREEMENT WHEN GOE TOOK 25 PERCENT PARTICIPATION, BUT CEPE HAD INSISTED INSTEAD ON MARKETING THE CRUDE ITSELF. CEPE'S FAILURE TO DO SO HAS LED TO OVERLOADED STORAGE FACILITIES AND A REDUCTION IN PRODUCTION LEVELS. SHIELDS SAID 93-95 PERCENT OF TRV IS CONSISTENT WITH RECENT BUY-BACK ARRANGEMENTS IN THE MIDDLE EAST BUT IS UNACCEPTABLE IN THIS INSTANCE TO T-G SINCE THE ECUADOREAN TRV IS CONSIDERABLY HIGHER THAN THE POSTED PRICES OF MIDDLE EAST PRODUCERS. T-G IS NOW CONSIDERING HOW TO RESPOND TO THE GOE'S BUY-BACK DEMANDS.

5. SHIELDS SAID HE HAD WANTED TO CONTACT THE DEPARTMENT TO SEE IF WE HAD ANY EXPLANATION FOR THE PATTERN OF ARBITRARY ACTION BEING FOLLOWED BY THE GOE. HE SPECULATED THAT IN A MORE RATIONAL COUNTRY THEY WOULD INTERPRET SUCH A PATTERN AS A CLEAR POLICY AIMED AT EX-PROPRIATION, BUT THAT HIS EXPERIENCE IN ECUADOR LED HIM TO EXPECT CONFUSED, UNCOORDINATED ACTIONS AND GREAT IN-COMPETENCE. WE TOLD HIM THAT WE HAD NO PARTICULAR EXPLANATION FOR GOE ACTIONS. WE POINTED OUT THAT INTERNAL CHANGES IN THE GOE APPEAR IN THE OFFING AND THAT

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THESE WILL ALMOST CERTAINLY INVOLVE LEADERSHIP IN THE PETROLEUM AREA, BUT THAT THERE IS NO REASON TO EXPECT SUCH CHANGES TO BE FOR THE BETTER.

6. T-G IS ALSO CONCERNED AT THE IMPACT OF VARIOUS GOE ACTIONS ON PRODUCTION LEVELS. ACCORDING TO SHIELDS AUGUST PRODUCTION WAS ONLY 142,000 BARRELS AND WILL PROBABLY BE ABOUT THE SAME IN SEPTEMBER.

7. WE PRESUME THAT T-G QUITO REPRESENTATIVES HAVE BRIEF-
ED EMBASSY ALONG FOREGOING LINES. SHIELDS SAID TEXACO
MANAGER MARTINEZ NOW IN U.S. BUT WOULD PROBABLY RETURN
QUITO WEEK SEPTEMBER 23 AT WHICH TIME HE WOULD DISCUSS
PROBLEMS WITH EMBASSY. KISSINGER

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